

## UPD

### SUMMARY OF RATE INCREASES\*

#### Water

- 2007: 11% increase projected to generate an additional \$342,787 in revenue
- 2008: no increase

#### Sewer

- No increase

#### Metro Pass-through

- 2007: 9.2% increase
- 2008: no increase

#### Depreciation Recovery Surcharge (DRS)

- Increase from \$750 per Equivalent Residential Unit (ERU) to \$955 per ERU.

#### Monthly UPD Water Rates

- Proposed 2007-2008 UPD rate structure:
  - Retains current fixed charges, increasing variable charges to generate required revenue.
  - Revises residential block volume thresholds to reflect lower UPD average usage & enhance conservation signals.

UPD Water Rates	2006	UPD Water Rates	2007	2008
<b>Residential</b>		<b>Annual Rate Increase Assumed</b>	<b>11.0%</b>	<b>0.0%</b>
Fixed (Varies By Meter Size)	\$11.75	<b>Residential</b>		
Variable Charge per ccf:		Fixed (Varies By Meter Size)	\$11.75	\$11.75
Block One (0 - 500 cf per month)	\$1.67	Variable:		
Block Two (501 - 1,100 cf per month)	\$3.22	Block One (0 - 400 cf per month)	\$1.94	\$1.94
Block Three (1,101 - 2,000 cf per month)	\$4.78	Block Two (401 - 900 cf per month)	\$3.74	\$3.74
Block Four (2,001 cf +)	\$6.34	Block Three (901 - 1,600 cf per month)	\$5.56	\$5.56
<b>Commercial &amp; Multi-Family</b>		Block Four (1,601 cf +)	\$7.37	\$7.37
Fixed (Varies By Meter Size)	\$15.60	<b>Commercial &amp; Multi-Family</b>		
Variable Charge per ccf:		Fixed (Varies By Meter Size)	\$14.13	\$14.13
Winter	\$2.19	Variable Charge per ccf:		
Summer	\$3.36	Winter	\$2.54	\$2.54
<b>Irrigation</b>		Summer	\$4.32	\$4.32
Fixed (Varies By Meter Size)	\$15.60	<b>Irrigation</b>		
Variable Charge per ccf	\$4.78	Fixed (Varies By Meter Size)	\$14.13	\$14.13
		Variable Charge per ccf	\$6.58	\$6.58

\*Information from FCS Rate Study presented to Council on August 29, 2006

- Other Considerations:
  - City & UPD residential water rates have historically included block volume charges increasing in equal increments.

Residential Block Volume Charge per ccf:	City (Proposed 2007)			UPD (Proposed 2007)	
	Charge	Increment		Charge	Increment
Block One	\$1.38			\$1.94	
Block Two	\$2.68	\$1.30		\$3.74	\$1.80
Block Three	\$3.96	\$1.29		\$5.56	\$1.81
Block Four	\$5.25	\$1.29		\$7.37	\$1.81

- Higher block three & block four charges can send stronger conservation signals to high water users, shifting additional cost recovery to those with greater demand.

### Impact on Average Customer (assuming 7ccf)

Sample Residential Monthly Bill	2006	2007	Change From Prior Year	2008	Change From Prior Year
UPD Water (Assuming 7 ccf)	\$26.54	\$30.75	\$4.21	\$30.75	\$0.00
UPD Sewer	\$18.71	\$18.71	\$0.00	\$18.71	\$0.00
King County Metro	\$25.60	\$27.95	\$2.35	\$27.95	\$0.00
<b>Total Water / Sewer Bill</b>	<b>\$70.85</b>	<b>\$77.41</b>	<b>\$6.56</b>	<b>\$77.41</b>	<b>\$0.00</b>

### Regional Bill Comparison

Monthly Residential Bills	Total
Skyway WSD	\$ 78.94
<b>Redmond - UPD (Recommended City Rates)</b>	<b>\$ 77.41</b>
Kirkland	\$ 74.13
<b>Redmond - UPD (Current City Rates)</b>	<b>\$ 73.20</b>
Issaquah	\$ 72.18
Coal Creek Utility District	\$ 69.00
Bellevue	\$ 67.00
Renton	\$ 66.11
Soos Creek WSD	\$ 64.12
Sammamish Plateau WSD	\$ 64.10
Mercer Island	\$ 62.98
<b>Redmond - City (Recommended City Rates)</b>	<b>\$ 60.89</b>
Tukwila	\$ 58.94
<b>Redmond - City (Current City Rates)</b>	<b>\$ 56.79</b>
Auburn	\$ 54.60
Kent	\$ 48.64
<b>Assumptions:</b>	
Meter Size:	3/4"
Monthly Water Consumption:	7 ccf
Monthly Sewer Volume:	7 ccf
Monthly Metro Charge (2007):	\$ 27.95

**UPD**

**DESCRIPTION OF NEW PROGRAMS**

No new programs were authorized for this fund.

**DESCRIPTION OF DEBT**

No new debt authorized for this fund.

## UPD

# EXCERPTS FROM THE FCS GROUP RATE STUDY

### Purpose of the Study

- Identify financial requirements in the 2007-2008 budget.
- Determine rate impacts projected for 2007-2008 in the UPD service area.

### Overview of Key UPD Financial Elements

- City policy: UPD will not impact city customers/rates
- Rates based on total developed service area (“buildout”).
  - Fixed costs spread over the total future customer base.
  - Depreciation recovery surcharge imposed on new development to fully fund depreciation expense.
- Follow the same fiscal policies required of the city service area.

### Changes from Prior Studies

#### **Knowledge & Experience Have Grown:**

- Revenues have risen to meet cash operating expenses and contribute towards the depreciation funding policy, but slower than forecast.
- More is known about UPD growth, customer demands, operating costs, and potential build-out costs.
- We can now evaluate cost-of-service and rate structure issues specific to the UPD Service Area.

#### **But The UPD Remains Less Predictable than The City Utilities:**

- Results remain dependent on highly variable growth assumptions (both the number of new connections and rate of growth to build-out).
- Demand patterns continue to evolve toward those of a mature customer base.

### Depreciation Recovery Surcharge (DRS)

- One-Time charge imposed on new UPD connections.
  - \$750 per Equivalent Residential Unit (ERU):
    - o Water: \$425; Sewer: \$325
- Helps fund the depreciation fiscal policy:
  - Ratepayers only cover their share of build-out depreciation.
  - DRS revenues help cover depreciation prior to build-out.
- Updated analysis shows an *increase* is needed:
  - \$955 per ERU: \$450 Water; \$505 Sewer
  - Slower pace of growth results in larger deficit to cover.
  - Helps ensure full depreciation funding per city policy.
  - Alternatives are higher rates or funding deficits.

Rate Study (cont.)

**UPD Rate Requirements for 2007-2008**

- UPD sewer rate increase in 2007 for Metro Pass-through only:
  - 9.2% increase or \$2.35 per month per household in King County Metro sewer rates.
- UPD Water Rate increase is required:
  - Upfront increase of 11.0% in 2007.

Primary Drivers For 2007 Water Rate Increase	Rate Impact
Lower Revenues Than Forecast	+16.0%
Lower Expenses Than Forecast	- 5.0%
<b>Total</b>	<b>+11.0%</b>

**UPD Water & Sewer Service Area: 2007-2008 Forecasted Performance**

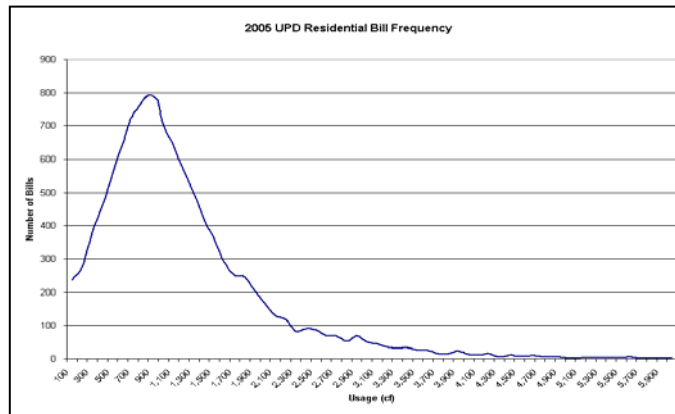
Water & Sewer Combined 2007 / 2008 Performance				
	Financial Test #1	Financial Test #2	Financial Test #3	Financial Test #4
	Net Operating Income	Net Income	Net Cash Flow	Coverage
<b>Operating Revenue</b>				
Water Rate Revenue	\$ 3,116,247	\$ 3,116,247	\$ 3,116,247	\$ 3,116,247
City Sewer Rate Revenue	1,541,049	1,541,049	1,541,049	1,541,049
Regional Water Charges	6,841,744	6,841,744	6,841,744	6,841,744
DRS Revenue	1,208,986	1,208,986	1,208,986	1,208,986
Revenue From Rate Increase	342,787	342,787	342,787	342,787
Metro Revenue	2,295,107	2,295,107	2,295,107	2,295,107
Miscellaneous Revenue	838,604	838,604	838,604	838,604
<b>Total:</b>	<b>\$ 16,184,525</b>	<b>\$ 16,184,525</b>	<b>\$ 16,184,525</b>	<b>\$ 16,184,525</b>
<b>Operating Expenses</b>				
Purchased Water	\$ (2,267,442)	\$ (2,267,442)	\$ (2,267,442)	\$ (2,267,442)
Metro Service	(2,295,107)	(2,295,107)	(2,295,107)	(2,295,107)
Regional Water Charges	(6,841,744)	(6,841,744)	(6,841,744)	(6,841,744)
Other Operating Expenses	(1,901,321)	(1,901,321)	(1,901,321)	(1,901,321)
Depreciation Expense / Transfer	(1,888,256)	(1,888,256)	(2,597,620)	(N/A)
<b>Total:</b>	<b>\$ (15,193,869)</b>	<b>\$ (15,193,869)</b>	<b>\$ (15,903,233)</b>	<b>\$ (13,305,613)</b>
<b>#1 Net Operating Income</b>	<b>\$ 990,656</b>	<b>\$ 990,656</b>	<b>(N/A)</b>	<b>(N/A)</b>
<b>Non-Operating Revenues (Expenses)</b>				
Interest on Debt		\$ -	\$ -	(N/A)
Interest Earned (Fund 402)		58,722	58,722	58,722
Interest Earned (Fund 407)		375,509	-	375,509
<b>Total:</b>		<b>\$ 434,231</b>	<b>\$ 58,722</b>	<b>\$ 434,231</b>
<b>#2 Net Income</b>		<b>\$ 1,424,888</b>	<b>(N/A)</b>	<b>(N/A)</b>
<b>Other Resources (Expenditures)</b>				
Debt Service Principal			\$ -	(N/A)
Reserve Funding			(167,847)	(N/A)
<b>Total:</b>			<b>\$ (167,847)</b>	<b>\$ -</b>
<b>#3 Net Cash Flow</b>			<b>\$ 172,167</b>	<b>(N/A)</b>
Connection Charge Revenue				\$ -
Net Revenue Available for Debt				\$ 3,313,144
Total Debt Service				\$ -
<b>#4 Coverage Realized</b>				<b>(N/A)</b>
<b>Calculated Water Rate Increase, per Financial Test #3</b>			<b>11.00%</b>	
<b>Calculated Sewer Rate Increase, per Financial Test #3</b>			<b>0.00%</b>	

Positive Cash Flow Enables "Catch-Up" On Depreciation Funding

### **UPD Residential Demand Patterns**

UPD residential customers use less water on average than city residential customers.

- Average Monthly Usage (City):  $\approx 710$  Cubic Feet/Meter Equivalent
- Average Monthly Usage (UPD):  $\approx 560$  Cubic Feet/Meter Equivalent



**UPD OPERATIONS AND MAINTENANCE FUND**

**REVENUE REPORT**

<b>UPD</b>	<b>2005-2006 Budget</b>	<b>2007-2008 Final</b>	<b>Budget to Budget Difference</b>	<b>2-year % change</b>	<b>1-year % change</b>
Beginning fund balance	\$1,109,332	\$1,450,527	\$341,195	30.8%	15.4%
Engineering Fees	\$667,768	\$667,768	\$0	0.0%	0.0%
Water Sales	\$2,973,925	\$3,481,929	\$508,004	17.1%	8.5%
Sewer Sales	\$1,510,908	\$1,541,049	\$30,141	2.0%	1.0%
Metro sales	\$2,015,165	\$2,285,106	\$269,941	13.4%	6.7%
RCFC Revenue	\$1,067,420	\$7,046,996	\$5,979,576	560.2%	280.1%
UPD Depreciation Surcharge	\$732,750	\$1,208,986	\$476,236	65.0%	32.5%
Miscellaneous Revenue	\$525,835	\$548,758	\$22,923	4.4%	2.2%
<b>Grand Total</b>	<b>\$10,603,103</b>	<b>\$18,231,119</b>	<b>\$7,628,016</b>	<b>71.9%</b>	<b>36.0%</b>

## UPD OPERATIONS AND MAINTENANCE FUND

### EXPENDITURE REPORT

UPD	2005-2006 Budget	2007-2008 Budget	Budget to Budget Difference	2-year % change	1-year % change
<b>Salaries</b>					
Salaries and Wages	\$823,588	\$795,931	(\$27,657)	-3.4%	-1.7%
Overtime	\$6,107	\$8,000	\$1,893	31.0%	15.5%
<b>Salaries Total</b>	<b>\$829,695</b>	<b>\$803,931</b>	<b>(\$25,764)</b>	<b>-3.1%</b>	<b>-1.6%</b>
<b>Benefits</b>					
MEBT	\$15,618	\$59,876	\$44,258	283.4%	141.7%
PERS	\$2,859	\$53,047	\$50,188	1755.4%	877.7%
Benefits - Medical Premiums	\$36,618	\$144,969	\$108,351	295.9%	147.9%
Benefits - Worker's Compensation	\$7,055	\$19,893	\$12,838	182.0%	91.0%
Other Benefits	\$229,961	\$128,567	(\$101,394)	-44.1%	-22.0%
<b>Benefits Total</b>	<b>\$292,111</b>	<b>\$406,352</b>	<b>\$114,241</b>	<b>39.1%</b>	<b>19.6%</b>
<b>Supplies</b>					
Fuel	\$5,717	\$6,000	\$283	5.0%	2.5%
Water Purchases	\$1,599,039	\$2,267,437	\$668,398	41.8%	20.9%
Water Purchases RCFC Pyts	\$1,000,000	\$6,841,744	\$5,841,744	584.2%	292.1%
Small Tools/Equip/Hardw/Softw	\$1,446	\$10,000	\$8,554	591.6%	295.8%
Office and Other Supplies	\$551	\$0	(\$551)	-100.0%	-50.0%
<b>Supplies Total</b>	<b>\$2,606,753</b>	<b>\$9,125,181</b>	<b>\$6,518,428</b>	<b>250.1%</b>	<b>125.0%</b>
<b>Professional Services</b>					
Repairs/Maintenance Supplies	\$87,665	\$85,000	(\$2,665)	-3.0%	-1.5%
Professional Services	\$159,036	\$119,000	(\$40,036)	-25.2%	-12.6%
Legal Services	\$2,106	\$2,000	(\$106)	-5.0%	-2.5%
Communications	\$19,400	\$31,000	\$11,600	59.8%	29.9%
Utilities	\$82,376	\$85,623	\$3,247	3.9%	2.0%
Repairs - Outside	\$55,200	\$42,000	(\$13,200)	-23.9%	-12.0%
Other Services and Charges	\$13,412	\$28,000	\$14,588	108.8%	54.4%
<b>Professional Services Total</b>	<b>\$419,195</b>	<b>\$392,623</b>	<b>(\$26,572)</b>	<b>-6.3%</b>	<b>-3.2%</b>
<b>Intergovernmental Services</b>					
Intergovernmental	\$145,625	\$296,563	\$150,938	103.6%	51.8%
Metro Wst Water Treatment	\$1,810,372	\$2,295,106	\$484,734	26.8%	13.4%
<b>Intergovernmental Services Total</b>	<b>\$1,955,997</b>	<b>\$2,591,669</b>	<b>\$635,672</b>	<b>32.5%</b>	<b>16.2%</b>
<b>Interfund Transfers</b>					
Transfer to CIP - Depreciation	\$2,106,773	\$2,597,620	\$490,847	23.3%	11.6%
Transfer to CIP - Operating (Unrestricted)	\$150,000	\$150,000	\$0	0.0%	0.0%
Interfund - General Fund	\$412,725	\$570,623	\$157,898	38.3%	19.1%
Interfund - Fleet	\$32,023	\$28,213	(\$3,810)	-11.9%	-5.9%
Interfund - Other	\$42,789	\$118,033	\$75,244	175.8%	87.9%
<b>Interfund Transfers Total</b>	<b>\$2,744,310</b>	<b>\$3,464,489</b>	<b>\$720,179</b>	<b>26.2%</b>	<b>13.1%</b>
<b>Capital Purchases</b>					
Capital Outlay	\$286,767	\$290,000	\$3,233	1.1%	0.6%
<b>Capital Purchases Total</b>	<b>\$286,767</b>	<b>\$290,000</b>	<b>\$3,233</b>	<b>1.1%</b>	<b>0.6%</b>
<b>Ending Fund Balance</b>					
Ending Fund Balance	\$1,452,059	\$1,133,007	(\$319,052)	-22.0%	-11.0%
Salary and Benefit Contingency	\$16,216	\$23,867	\$7,651	47.2%	23.6%
<b>Ending Fund Balance Total</b>	<b>\$1,468,275</b>	<b>\$1,156,874</b>	<b>(\$311,401)</b>	<b>-21.2%</b>	<b>-10.6%</b>
<b>Grand Total</b>	<b>\$10,603,103</b>	<b>\$18,231,119</b>	<b>\$7,628,016</b>	<b>71.9%</b>	<b>36.0%</b>